Global Business Languages

Volume 9 *New Synergies, New Times* Article 11

May 2010

Do Not Throw Out the Baby with the Bath Water: Alternative Ways of Explaining the Latin American Crisis in the Spanish for Business Classroom

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The current economic crisis in Latin America, particularly since the meltdown in Argentina, has prompted a veritable barrage of criticism against what is commonly known as globalization, i.e. the economic integration that has been taking place in the region since the early 1990s. The criticism comes from several sectors, and it has wide appeal. Not even our students are immune from the tendency to view economic liberalization as one more trick that multinational corporations utilize to enrich themselves at the expense of the general public, both in the U.S. and abroad. For several reasons, it is incumbent upon instructors of Spanish for international business to offer other explanations, as well as to motivate students to explore and discuss the crisis in a wider context.

On the one hand, it would be rather simplistic for us, professors in language departments, to contradict what students are learning in economics and international business classes, fields that tend to be much more closely associated with the objectives of free enterprise. On the other hand, the criticism against trade liberalization and privatization programs in Latin America does not always take into account the specific conditions nor institutional problems of a particular country, nor the few cases where such programs have yielded positive results. To be able to answer questions about the economic situation in Latin America—or about the commonly held views of the crisis—it is important for instructors to be well informed about recent events, and to be familiar with basic economic and international trade concepts and rationales. Our objectives in the classroom, as well as our active participation in the students' education, are achieved through our own education in this area. With such goals in mind, the following pages will present a brief overview of some of the criticism leveled against the process of economic liberalization, the rationale for free trade and some of its potential benefits, as well as a number of factors that have impeded the successful integration of the region into the global economy.

In Latin America, the 1990s were a time of significant economic and political changes that radically altered the social landscape of the region, and promised to reduce the poverty that still afflicts the great majority of the population. It was the beginning of the privatization of state enterprises, and the opening of the economy to foreign goods and investment in countries where historically the government played a key role as promoter and arbiter of development. It was around this time when concepts such as commercial treaty, free trade, competition, and others, became part of the general public's vocabulary, no longer the exclusive domain of technical experts. The best-known free trade agreement was signed by the U.S., Canada and Mexico in 1994, but there are others that cover different regions: Mercosur, Pacto Andino, Atpa, Sgp, and Alca (Área de Libre Comercio de las Américas), which, if enacted, would bring economic integration to most of the continent. The ideas behind the economic changes were simple: to give the private sector a freer hand in the development of the economy with less interference from the government, and reduce or eliminate barriers to free trade in order to make national industry more competitive. The economic liberalization has a parallel movement in politics with the return of parliamentary democracy to most of the region. The exception was Cuba, where a reluctant experiment with very limited forms of free enterprise did not alter the government's tight control over the island in economic or political matters.

Today, however, the situation could not be any worse, as evidenced by the economic downturn that, with very few exceptions, afflicts the region. Argentina has exemplified the crisis, but it is by no means the only case: Brazil, Uruguay, Venezuela, Ecuador, Colombia and most of the nations of Central America also find themselves in a very delicate situation. With the exception of Mexico, Costa Rica and Chile, it would seem that Latin America is starting the new century with another lost decade. Explanations and accusations are numerous. In intellectual and academic circles there is no shortage of fingerpointing to the usual suspects: the International Monetary Fund, multinational corporations, globalization, and neoliberalism. The criticism comes from a wide range of perspectives that have as a common denominator what is perceived as tendencies and policies contrary to the public interest and the national sovereignty of smaller countries. "The anti-globalization movement," states Stephen Kobrin, professor of multinational management at Wharton, "is as much a protest against neoliberalism and the perceived commoditization of life as it is against globalization itself." (20)

A brief review of the criticism leveled against the liberalization of trade and investments helps understand the wide range of opposition. Foreign investment is a frequent target. Typical is an article in the Argentine press that laments the presence of foreign capital in the economy and accuses multinationals of investing in the country only in order to obtain extraordinary earnings from highly profitable local enterprises (Masili). In certain academic circles, the program of privatization of state enterprises is considered a theft of national wealth carried out by right wing neoliberalism (Soliomanski 682). The Catholic church has also joined the chorus against programs of economic integration, as evidenced by the following declaration from the Archbishop of Tegucigalpa: "The present economic system has to change. Globalization is creating exclusion" (Donovan 6). No one surpasses the elegance of José Saramago, who, making full use of his literary talent, alerts us to the dangers that neoliberal policies pose to the world: "El ratón de los derechos humanos," declared the Nobel Prize for Literature, "acabará por ser devorado implacablemente por el gato de la globalización." ["The mouse of human rights will end up being implacably devoured by the cat of globalization"] ("Este mundo…").

The discontent is not limited to developing nations, hence the large demonstrations in Seattle, Davos, Montpellier, Genoa, Göteborg and other places where the anti-globalization movement has exploded in a wave of violence in order to express its objections to the economic policies of industrialized countries and international institutions. In "A Survey of Globalization" the British weekly *The Economist* states that "in developed economies, support for further trade liberalization is uncertain; in some countries, voters are downright hostile to it" (13). Although public opinion in the U.S. has not reached such extremes, there is widespread concern about a system that, according to a significant part of the population, benefits mainly other countries or multinational companies. Ralph Nader strikes a popular note when he brands globalization as "an autocratic system of governance that favors corporate interests" (see Kobrin 2). Kobrin mentions the results of a series of polls indicating that U.S. public opinion believes the government is mainly concerned with protecting the interests of multinationals. Furthermore, according to 52% of respondents, globalization hurts the average American by allowing competition from low-wage workers, thus contributing to job losses (Kobrin 25).

Even among university students, many of whom are preparing for a career in international business, it is not uncommon to find opinions that question the intentions and consequences of economic liberalization. According to a Georgia State University student, foreign investment in Latin America is the means through which multinational companies exploit the region's resources, particularly low-wage workers; as a result, he writes in an essay, "los ricos se siguen haciendo más ricos a costa de los demás y los pobres tienen menos oportunidad de avanzar." ("The rich get richer at the expense of the rest of the population, and the poor have less opportunities to get ahead"). According to another student, the system works along the following lines: foreign companies use power to impose their will on less developed countries; as a result, local workers are forced to accept low salaries and deplorable working conditions.[1] The results of an informal poll carried out among students of business Spanish at Georgia State, Georgia Southern and the University of Georgia, indicate similar doubts as to the objectives and consequences of NAFTA.[2] Although a significant majority of respondents (81.3%) thinks that globalization is good for Latin America, for a rather large minority (25.3%) NAFTA benefits mainly the U.S. and Canada. Even more surprising is the fact that slightly less than half (45%) considers that the system of *maquila* (foreign-owned factories that assemble goods destined for the export market) constitutes exploitation of low-wage workers. This is particularly troubling given that the maquila represents an important form of foreign direct investment (FDI) in Mexico and Central America. Criticism of free trade and economic integration, therefore, can no longer be relegated to extremist political movements nor to marginal elements of society; to ignore such criticism would amount to allowing the opposing side to dictate the terms of the discussion. According to Kobrin, "it would be a major error to dismiss the antiglobalization protest out of hand," (34) given that such a wide range of opposition reflects a high degree of public uncertainty and misunderstanding of the changes brought about by economic integration.

Thus, instructors of Spanish for international business need to become familiar with the process of economic liberalization, and be able to discuss

[1]These quotes are taken from essays written for a Spanish for International Business class at Georgia State University, taught during Spring semester 2003.

[2]The poll was based on a set of three multiple choice questions, designed by myself and Lynette Jiménez, a student assistant at Georgia State's Department of Modern and Classical Languages, during the Spring of 2003.

in class the opportunities for development it provides. Globalization with economic integration at various levels rests on rather basic economic logic: as a result of recent technological advances, it is more efficient to divide the process of production along geographical lines in order to maximize comparative advantages, and to open economies to foreign products and investments.[3] There can be multiple benefits: investments, and therefore job creation, in countries where there is a surplus of labor; for advanced economies, bigger markets for their high-tech goods and services and reduced prices for imported goods, a result of low labor costs. The countries that have come to symbolize the potential of an economy geared towards the foreign markets are the so-called "Asian Tigers", in particular South Korea, where per capita GDP increased from U.S.$ 400 (in today's prices) in 1955 to U.S.$ 19,400 in 2002.[4] In China FDI has helped overcome the stagnation of a planned economy, with rates of growth of approximately 8% throughout most of the 1990s (Vásquez, "Globalization" 4). In Latin America, where the state historically emphasized import-substitution over foreign trade, it is precisely those countries most associated with economic integration that are in the best shape to weather the current downturn. In the case of Mexico, exports to the U.S. have grown at a yearly rate of 20% since the signing of NAFTA in 1994 ("Fox and Bush" 37); the rise of export-oriented industries has increased the demand for labor, thus keeping down the rate of unemployment. Contrary to what critics of globalization state about exploitation of low-wage workers, foreign companies operating in poor countries generally offer better conditions and opportunities than their domestic counterparts. According to *The Economist*, "wages paid by foreign affiliates to poor-country workers are about double the local manufacturing wage," and in the case of Mexico the highest salaries are paid along the border with the U.S., which is precisely the area with the highest concentration of foreign investment ("A survey" 13). The fact remains that for most of Latin America

[3]Kobrin, in his definition of globalization, underscores the uncertainty of a process that has become one of the main features of current economic activity: "Globalization is a transition from a world ordered geographically, where the basis for economic organization is sovereign territoriality, to an aterritorial network mode of organization whose form is not yet clear" (23). The by-passing of "sovereign territoriality" is what accounts for the suspicions of foreign investment in small economies.

[4]*The Economist* ("A Survey of Globalization" 11) and *CIA Factbook on South Korea 2002*.

the foreign sector is a key component of the economy, and in many instances it is keeping the countries afloat. Colombian economist Ricardo Torres, advisor to the Consejo Superior de Comercio Exterior, estimates that each U.S.$ 10,000 worth of exported goods generates one job, and asserts that for the last two years, exports have been the main source of job creation in the country (Torres).

There are other aspects of economic integration that are worth exploring. The globalization index published by A. T. Kearney, the management consulting firm, and *Foreign Policy* magazine points to the relation between economic liberalization and transparency, stating that "public officials in the most global countries are less corrupt than their counterparts in closed economies" ("Globalization's Last Hurrah?"). Chile, for example, in spite of recent scandals in pension and mutual funds, still enjoys top ranking by international financial institutions.[5] It should also be stated that institutions such as the World Bank and the International Monetary Fund are playing an important role in the fight against corruption in developing countries. Transparency International's *Global Corruption Report* for 2003 asserts that under the initiative of international financial institutions, "donors are increasingly concerned that development funding should not be extended to corrupt governments, and new loans are more frequently dependent upon putting in place safeguards against corruption" (104).

Integration into the world economy is also a key factor in the prosperity of a nation. Ian Vásquez of the Cato Institute points to a strong correlation among economic freedom—defined as free enterprise and open markets—and prosperity. According to figures provided by Vásquez, the rate of economic growth in the 1990s was 2.27% for the most globalized economies, compared with 1.45% for the most isolated ("Globalization" 3). Fast economic growth is necessary to reduce poverty. In the same period of time, Far East Asia, the region with the world's highest rate of growth, reduced poverty from 26% to 15% of the population. In Latin America, Chile is once again ahead of the rest: an annual rate of growth of 7% from 1987 to 1998 helped reduce poverty from 45% to 22% (Vásquez, "Globalization" 4).

[5]The scandals, which included illegal payments to government officials and the funding of political parties, caused the resignation of the president of the central bank. According to *The Economist*, in spite of the relatively small amounts of money involved, "it reflects well on Chile that they have caused so much fuss, and are being investigated" ("Losing its Shine" 37).

Another consequence of opening the national economy to investment is the transfer of technology. When companies set up shop in a country through FDI, very often they bring a superior level of technology, thus increasing the demand for qualified personnel. These new requirements are the driving force behind the educational changes needed to train a more efficient work force. Costa Rica is an excellent example of the impact of FDI on the technological base of an emergent economy. An educational alliance between Intel, the telecommunications conglomerate, and the Universidad de Costa Rica resulted in an agreement to increase computer literacy among education students. Such a project, according to the daily *La República*, represents a significant change in the quality of instruction (see Siu). In fact, Costa Rica is one of a handful of countries with plans to provide every high school student with an e-mail address (see Friedman). The weight of technology is already noticeable in the national economy. For 2002, of the total value of sales to the U.S.—principal destination of Costa Rican exports—electronic modules (15.87%) were ahead of traditional products such as bananas (8.79%) and coffee (3.09) (see Murillo). It is precisely the emphasis on efficiency and education that makes this small nation unique among its neighbors in terms of wealth and stability.

In the context of such opportunities for economic development brought about by foreign investment and free trade, how can we explain the depth of the current crisis in Latin America? Maybe globalization per se is not to blame for the difficulties, and therefore we should consider other factors that, in combination, have blocked the chances of successful integration. A lack of fiscal discipline, even in years of economic expansion—what Carlos Losada identifies as "the inability (or unwillingness) of some governments to run budget surpluses in good years," (18)—is frequently cited as a recurrent problem. Historically, in Latin America a country's control over public spending has been the exclusive domain of the winner of national elections, a fact that has turned the budget into a political weapon to be used at the discretion of the party in power. The experience in Argentina is typical of such fiscal mismanagement. Brink Lindsey in "How Argentina Got into This Mess" presents a compelling account of the factors that led to the crisis. Public spending, for instance, increased from 9.4% to 21% of GDP between 1989 and 2000, the period during which the government enacted most of its privatization program. However, the funds derived from the sale of state companies were used to underwrite the federal deficit, thus allowing the government to hide the precarious condition of public finances. Fiscal stability was weakened even further by the system of revenue sharing with the provinces, whose operational spending increased by 25% between 1995 and 2000. In the province of Tucumán, state employees accounted for 22.5% of the labor force and, at a time of parity with the dollar, state legislators received salaries of up to 300,000 pesos.[6] "Such profligacy is at the root of Argentina's present financial crisis," concludes Lindsey ("How Argentina…").

It is also necessary to consider the impact of two cultural constructs on the success of any type of economic reform in Latin America: 1) corruption and the ensuing lack of trust in social institutions, and 2) highly inadequate support for the creation of small businesses.[7] Thomas Friedman in *The Lexus and the Olive Tree* asserts the importance of viable social institutions as a condition for success in a globalized economy. "The ability of an economy to withstand the inevitable ups and downs of [globalization]," writes Friedman, "depends in large part on the quality of its legal system, financial system and economic management—all matters under the control of governments and bureaucrats" (158). Of particular importance is a legal system that guarantees the property rights of national as well as international companies, and transparency in commercial and financial matters.[8] In Latin America, corruption has been a major problem, and in the context

[6]"Clientelismo"—the use of state institutions as a source of employment for political supporters—is a standard practice in Argentina, as well as in other Latin American countries. "Argentina's politicians," writes *The Economist* in its Sept. 1, 2001 issue, "are notorious for padding payrolls of legislatures, both national and provincial, with their hangers-on" ("Culling the Politicians").

[7]These two topics lend themselves to very productive class discussions, since most Spanish for business textbooks include sections on corruption as a cultural component. Instructors should take advantage of the opportunity to widen the textbook presentation, to include a comparison of corruption as it exists in Latin America and in the U.S.—particularly in light of the wave of financial scandals in companies such as Enron, Tyco, and others—and to explore the social and economic consequences here and in much smaller and fragile economies.

[8]An example of the clarity that Friedman proposes is Chile's Decreto Ley 600, initially passed in 1974 and ratified in 1993 as Decreto con Fuerza de Ley 523. The Decreto Ley 600 establishes the rights and responsibilities of foreign companies investing in Chile. Most important are the sections regarding the repatriation of profits (Título I, Artículo 2 (f)), favorable exchange and tax rates for the repatriation of such profits (Título II, Artículos 4 and 5), and equal treatment in tax and tariff matters for domestic and foreign investors (Título II, Artículo 8) ("Decreto con fuerza de Ley 523"). As a result of this type of legislation, Chile is considered one of the safest countries for foreign investment.

of a severe crisis, lack of confidence in public institutions can become a barrier to necessary reforms.[9] Transparency International, in the report mentioned earlier, includes the result of a poll carried out by the Banco Interamericano de Desarrollo which shows that 63% of the public is against privatization of state enterprises. According to the authors of the poll, what frustrates the citizenry "is not the privatizations themselves, but the corruption that surrounds them" (see *Global Corruption* 109). Corruption has continued unabated throughout the 1990s, precisely at the moment when the region's economies were making the transition toward the free market. Scandals flourished under the administrations of Carlos Salinas de Gortari in Mexico, Arnoldo Alemán in Nicaragua, Ernesto Samper in Colombia, Alberto Fujimori in Peru, Carlos Andrés Pérez in Venezuela and Carlos Ménen in Argentina, to name but the best-known cases. In Central America, the situation is critical. A recent article in the *New York Times* explores the pervasive nature of corruption in the region, one of the worst in the world for doing business, and concludes with an expert who states that in the case of Guatemala, corruption "'is a type of social pathology that should be analyzed by a sociologist or a psychiatrist'" (Gonzalez A3). Colombia is not far behind. The daily *El Tiempo* quotes a number of reports issued by Transparency International, the World Bank and Colombia's Vice-Presidency which indicate that almost half of the government contracts are affected to some degree or another by corruption. It is estimated that the nation pays approximately 20% in overcharges due to such irregularities ("Corrupción").[10] Argentina presents another case in which corruption has entrenched itself in the social fabric. Of 59 countries surveyed by Harvard University

[9]Peruvian author Mario Vargas Llosa, one of the few Latin American intellectuals to support free market policies, considers the lack of confidence in public institutions one of the major causes of economic failure in the region. "En América Latina hay una falta de confianza total de la inmensa mayoría de latinoamericanos hacia las instituciones," writes Vargas Llosa in the Colombian daily *El Tiempo*, "y ésta es una de las razones por las que nuestras instituciones fracasan" ["In Latin America there is a complete lack of trust, on the part of the overwhelming majority of the population, on our national institutions, and this is one of the reasons why our institutions fail"] ("¿Por qué fracasa América Latina?"). He goes on to state that further attempts to liberalize the economy and bring about the reforms necessary for growth are blocked by the public's fear of official corruption and demagogic accusations against "los neoliberales."

[10]Transparency International, according to *El Tiempo*, ranks Colombia 72nd out of 100 countries, with a transparency index of 2.9% ("Corrupción").

and the World Economic Forum, Argentina ranks 40th in the frequency and necessity of illegal payments to government officials, 50th in the independence of the judicial system and 45th in the level of corruption within the legal system (see Lindsey).[11] Official graft creates a significant image problem for Latin American countries with the international community, and although it is difficult to estimate the impact of corruption on foreign investment decisions, it is safe to conclude that it presents a serious obstacle.

Official corruption and bureaucratic inefficiency aggravate another problem in emergent economies by slowing down access to credit, thus making it very difficult to create businesses and generate employment. For poor people, access to credit is almost impossible, given the difficulties they encounter in establishing legal ownership of their assets. In an interview with PBS, Peruvian economist Hernando de Soto singles out lack of property rights as the main reason why capitalism has not yielded the anticipated results in Latin America and other underdeveloped areas: "[In developing nations] what is missing is a legal system and an institutional framework that allows us to leverage wealth" (de Soto). The consequences are far reaching. On the one hand, credit difficulties and red tape[12] significantly limit the creation and growth of small businesses—the "equeñas y medianas empresas" or "Pymes,"—a valuable source of entrepreneurial skills and jobs.[13] On the other hand, lack of legal ownership forces many entre-

[11]In spite of recent improvements in the country's economic picture, the shadow of official corruption lingers. *The Economist* observes that "[…] a tangible obstacle to future investment is a corrupt and politicized judiciary" ("Poised"). The article adds that until corruption and other problems are brought under control, access to credit will be very limited, thus endangering the economy's prospects for growth.

[12]Red tape is an entrepreneur's worst nightmare in poor countries. It is estimated that an inhabitant of Lima's poorer neighborhoods would need 207 different bureaucratic steps to establish ownership of an asset (de Soto). In Buenos Aires, someone who wants to open a business would need 12 bureaucratic steps, 77 working days and U.S.$ 2,100 in fees (Vásquez, "Argentina").

[13]The growing importance of the foreign sector is beginning to change the image and social standing of small enterprises. In Brazil, for example, the government of Luiz Inácio Lula da Silva is granting "credit and incentives for smaller producers crucial to export industries such as textiles, footwear and leather goods" (Karp). In Colombia, the web page for the Ministerio de Comercio Exterior has a link devoted to 'Pymes', the small companies that are at the forefront of the government's export efforts, particularly in the areas of textiles and clothing. These changes are probably representative of similar trends throughout the region.

preneurs into the informal economy, thus perpetuating a cycle of tax evasion and unsuitable working conditions. More damaging, in the long run, is the fact that, by denying the majority of the population full participation in the economy, the system is endangering the implementation of economic reforms crucial to the prosperity of the nation: "If you don't get the poor and middle classes in on the game by giving them property rights, they will rebel against the system, not because they don't like the system, but because it isn't working for them" (de Soto).

The purpose of the present study has been to widen the scope of classroom discussions regarding the current conditions in Latin America and the measures that defined economic policy during the 1990s. This effort has structural limitations, given the complexity of the topic and the fact that the theoretical basis for an evaluation of such policies is the domain of other departments, namely economics and international business. Nevertheless, as instructors in the field of Spanish for business, we have the duty of keeping ourselves well informed of critical concepts and events in these areas, to be able to grasp key elements of a rather complex reality. Only then can we fully and actively participate in the educational process of our students, and help them prepare for the highly integrated and competitive world they are about to enter.

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